

TEACHERS' RETIREMENT BOARD  
BENEFITS AND SERVICES COMMITTEE

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SUBJECT: Adoption of Factors from June 30, 1999 Experience  
Analysis – Assessment for Canceling Pre-Retirement  
Election of Option

ITEM NUMBER: 5b

ATTACHMENT(S): 2

ACTION: X

MEETING DATE: October 12, 2000

INFORMATION:     

PRESENTER: Rick Reed

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**SUMMARY**

Any California State Teachers' Retirement System (CalSTRS) member eligible to retire under the Defined Benefit (DB) Program may also make a pre-retirement election of an option. A member who elects an option prior to retirement can provide an enhanced coverage to beneficiaries if the member does before retirement. Section 24309 allows cancellation of a pre-retirement election of an option under specified conditions. This section also requires that, when the pre-retirement election of an option is cancelled, the subsequent allowance is reduced by an amount determined by the Teachers' Retirement Board (Board) to be the actuarial equivalent of the coverage the member received as a result of the pre-retirement election. This reduction, known as the assessment, eliminates any adverse funding to the DB Program.

At its January 11, 1996 meeting, the Board adopted a policy that assessments for cancellation of pre-retirement option elections will be reviewed after each experience analysis to determine if they should be revised. Following adoption of the latest Actuarial Experience Study by the Board at the February 3, 2000 meeting, the Consulting Actuary has recommended the age specific assessments to be imposed if a pre-retirement of an option is cancelled. The recommended assessments are shown on Attachment 1.

The recommended assessment factors reflect changes that are mainly attributable to revised gender-based weighting and changes in actuarial economic assumptions and pre-retirement mortality.

The following table provides a comparison between current and recommended assessments based on the expected average assessment for all ages.

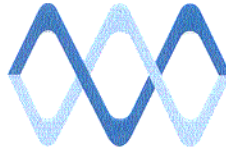
**Current to recommended factor comparison**

|                               | <b><u>Opt 2 &amp; 6</u></b> | <b><u>Opt 4</u></b> | <b><u>Opt 5</u></b> | <b><u>Opt 3 &amp; 7</u></b> |
|-------------------------------|-----------------------------|---------------------|---------------------|-----------------------------|
| Coverage A(all) or            |                             |                     |                     |                             |
| Coverage B w/o spouse named:  |                             |                     |                     |                             |
| Current factors               | 0.57%                       | 0.41%               | 0.28%               | 0.25%                       |
| Recommended factors           | 0.54%                       | 0.39%               | 0.29%               | 0.25%                       |
| Coverage B with Spouse named: |                             |                     |                     |                             |
| Current factors               | 0.28%                       | 0.10%               | 0.00%               | 0.00%                       |
| Recommended factors           | 0.27%                       | 0.10%               | 0.00%               | 0.00%                       |

The System has traditionally implemented new factors on January 1 to allow an orderly administration of the change. Implementation of the attached recommended assessments will allow the accurate reflection of actual costs to CalSTRS for providing the coverage the member received.

**RECOMMENDATION**

Adopt assessments for cancellation of pre-retirement election of options to be effective January 1, 2001, as recommended by the Consulting Actuary.



**MILLIMAN & ROBERTSON, INC.**  
Actuaries & Consultants  
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September 18, 2000

Mr. Ricky C. Reed, Actuary  
Office of the Actuary  
State Teachers' Retirement System  
7667 Folsom Blvd.  
Sacramento, California 95826-2614

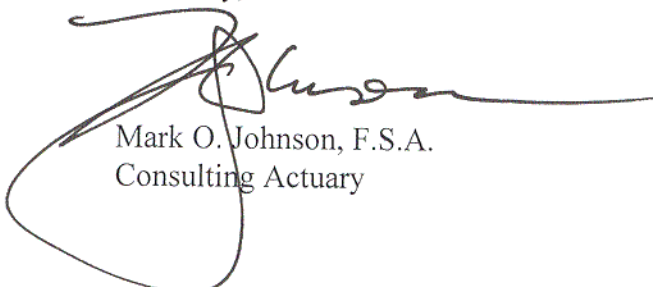
**RE: CANCELLATION ASSESSMENT FOR PRE-RETIREMENT OPTION ELECTION**

Dear Rick:

We have updated the actuarial factors used to charge Members who cancel a pre-retirement option election. All procedures used in conjunction with our letter to Ms. Gretchen Cooper dated December 5, 1995, were used to produce the factors in this letter. The only changes are the following assumptions: active life mortality rates, the unisex blending contained in our September 11, 2000, report on the DB Program option factors, and the discount rate of 8%.

If you have any questions or comments, please let us know.

Sincerely,



Mark O. Johnson, F.S.A.  
Consulting Actuary

MOJ:j  
Encl.

cc: Ed Derman  
John Presley  
Susan O'Farrell

# CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

## RECOMMENDED CANCELLATION ASSESSMENT FACTORS FOR PRE-RETIREMENT OPTION ELECTION

| REDUCTION IN ALLOWANCE PER YEAR OF COVERAGE |              |              |                       |         |                          |              |              |                       |
|---|--------------|--------------|-----------------------|---------|--------------------------|--------------|--------------|-----------------------|
| Cov. A or Cov. B without spouse named       |              |              |                       | Age     | Cov. B with spouse named |              |              |                       |
| <u>Opts 2 &amp; 6</u>                       | <u>Opt 4</u> | <u>Opt 5</u> | <u>Opts 3 &amp; 7</u> |         | <u>Opts 2 &amp; 6</u>    | <u>Opt 4</u> | <u>Opt 5</u> | <u>Opts 3 &amp; 7</u> |
| 0.14%                                       | 0.10%        | 0.07%        | 0.06%                 | 50      | 0.07%                    | 0.02%        | 0.00%        | 0.00%                 |
| 0.15%                                       | 0.11%        | 0.08%        | 0.07%                 | 51      | 0.07%                    | 0.03%        | 0.00%        | 0.00%                 |
| 0.16%                                       | 0.12%        | 0.09%        | 0.07%                 | 52      | 0.08%                    | 0.03%        | 0.00%        | 0.00%                 |
| 0.18%                                       | 0.13%        | 0.09%        | 0.08%                 | 53      | 0.09%                    | 0.03%        | 0.00%        | 0.00%                 |
| 0.20%                                       | 0.14%        | 0.10%        | 0.09%                 | 54      | 0.10%                    | 0.04%        | 0.00%        | 0.00%                 |
| 0.22%                                       | 0.16%        | 0.12%        | 0.10%                 | 55      | 0.11%                    | 0.04%        | 0.00%        | 0.00%                 |
| 0.24%                                       | 0.18%        | 0.13%        | 0.11%                 | 56      | 0.12%                    | 0.04%        | 0.00%        | 0.00%                 |
| 0.27%                                       | 0.20%        | 0.14%        | 0.12%                 | 57      | 0.14%                    | 0.05%        | 0.00%        | 0.00%                 |
| 0.30%                                       | 0.22%        | 0.16%        | 0.13%                 | 58      | 0.15%                    | 0.06%        | 0.00%        | 0.00%                 |
| 0.33%                                       | 0.24%        | 0.18%        | 0.15%                 | 59      | 0.17%                    | 0.06%        | 0.00%        | 0.00%                 |
| 0.37%                                       | 0.27%        | 0.20%        | 0.16%                 | 60      | 0.19%                    | 0.07%        | 0.00%        | 0.00%                 |
| 0.42%                                       | 0.30%        | 0.22%        | 0.18%                 | 61      | 0.21%                    | 0.08%        | 0.00%        | 0.00%                 |
| 0.47%                                       | 0.34%        | 0.25%        | 0.21%                 | 62      | 0.24%                    | 0.09%        | 0.00%        | 0.00%                 |
| 0.54%                                       | 0.39%        | 0.28%        | 0.24%                 | 63      | 0.27%                    | 0.10%        | 0.00%        | 0.00%                 |
| 0.60%                                       | 0.44%        | 0.32%        | 0.27%                 | 64      | 0.30%                    | 0.11%        | 0.00%        | 0.00%                 |
| 0.68%                                       | 0.49%        | 0.36%        | 0.31%                 | 65      | 0.34%                    | 0.12%        | 0.00%        | 0.00%                 |
| 0.77%                                       | 0.56%        | 0.41%        | 0.35%                 | 66      | 0.39%                    | 0.14%        | 0.00%        | 0.00%                 |
| 0.88%                                       | 0.63%        | 0.46%        | 0.40%                 | 67      | 0.44%                    | 0.16%        | 0.00%        | 0.00%                 |
| 0.99%                                       | 0.71%        | 0.52%        | 0.45%                 | 68      | 0.50%                    | 0.18%        | 0.00%        | 0.00%                 |
| 1.12%                                       | 0.80%        | 0.59%        | 0.51%                 | 69      | 0.56%                    | 0.20%        | 0.00%        | 0.00%                 |
| 1.26%                                       | 0.90%        | 0.66%        | 0.57%                 | 70 & up | 0.63%                    | 0.23%        | 0.00%        | 0.00%                 |

Attachment to Letter Dated September 18, 2000

PROPOSED  
RESOLUTION  
OF THE  
TEACHERS' RETIREMENT BOARD  
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Cancellation Assessment for Pre-Retirement Option Election

RESOLUTION NO.

WHEREAS, the Teachers' Retirement Board has previously adopted a policy, at the January 11, 1996 board meeting, to review the assessments for cancellation of pre-retirement option elections after each experience analysis to determine if they should be revised; and

WHEREAS, the Teachers' Retirement Board has, as a result of recommendations included in the 1999 Actuarial Experience Analysis Report at the February 3, 2000 board meeting, made changes in several actuarial assumptions; and

WHEREAS, the gender based weighting derived for the option factors has changed based on experience; and

WHEREAS, the assessments for cancellation of pre-retirement option elections previously adopted by the board are not consistent with these changes, Therefore, be it

RESOLVED, that the Benefits and Services Committee recommend that the Teachers' Retirement Board adopt, effective January 1, 2001, the age specific factors recommended by the Consulting Actuary on the attached table, with partial years of coverage proportionately assessed.

Adopted by:  
Benefits and Services Committee

Ratified by:  
Teachers' Retirement Board

on October 12, 2000

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JAMES D. MOSMAN  
Chief Executive Officer